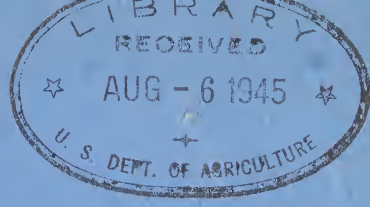


Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.



**THE SECOND ANNUAL REPORT
OF THE MANAGER OF THE
FEDERAL CROP INSURANCE
CORPORATION**

1940

ANNUAL REPORT OF THE MANAGER OF THE FEDERAL CROP INSURANCE CORPORATION, 1940

UNITED STATES DEPARTMENT OF AGRICULTURE,
FEDERAL CROP INSURANCE CORPORATION,
Washington, D. C., August 31, 1940.

Hon. HENRY A. WALLACE,
Secretary of Agriculture.

DEAR MR. SECRETARY: Transmitted herewith is the second annual report of the Federal Crop Insurance Corporation for the fiscal year ended June 30, 1940.

Increased participation, together with a year's experience in operating and administering the insurance program, enabled us to improve the operations, devise efficient changes in the broader aspects of the plan, and arrive at some definite conclusions.

This report consists of an analysis of these undertakings and a concise examination of the problems we met and our solution of them. This report is submitted with a recommendation that it be printed.

Sincerely,

LEROY K. SMITH, *Manager.*

CONTENTS

	Page		Page
The Federal stake in crop insurance.....	1	Financial report 1940 fiscal year—Continued.	
Crop insurance legislation.....	2	Comments on balance sheet—Continued.	
Capital fund.....	2	Operating reserve.....	16
Administrative funds.....	3	Capital stock.....	17
Organization.....	3	Operating and administrative ex-	
Plan of operation.....	3	penses.....	18
Type of insurance.....	3	Appraisal of 1940 operations.....	19
"All-wheat" basis.....	4	Organization.....	19
Yields insured.....	4	Insurance written.....	19
Premium rates.....	4	Appraisal of participation.....	20
Wheat reserves.....	4	Actuarial considerations.....	20
Indemnities.....	4	Adjustment of losses.....	23
Capital reserve.....	5	Crop conditions in 1940.....	23
Writing insurance.....	5	Payment of indemnities.....	24
Establishing yields and rates.....	5	Grain handling.....	24
1940 insurance contracts.....	5	Planning for 1941.....	26
Financial report 1940 fiscal year.....	6	Third year of insurance begins.....	26
General.....	6	Few changes in program.....	26
Comments on balance sheet.....	14	Actuarial data brought up to date.....	26
Cash.....	14	Insurance on other crops—research.....	28
Capital fund.....	14	Cotton.....	28
Wheat inventory.....	14	Corn.....	28
Interagency assets.....	15	Citrus fruits.....	29

THE FEDERAL STAKE IN CROP INSURANCE

Every year a million hopeful farmers plant between 60 and 70 million acres of wheat, investing, in addition to their hard work, from \$5 to \$10 an acre in the prospects of a good crop.

Every year bad weather, insects, disease, or accidents such as fire, rob some farmers of the harvest for which they have worked and planned. In some years crop failure is widespread, costing wheat growers vast sums in lost working capital and depriving them of needed income. During the past 10 years adverse weather and other hazards have forced farmers to abandon an average of 14 million acres annually. It is estimated that this abandonment has cost wheat growers an average of nearly 100 million dollars a year.

The Federal Government shares with the States and rural communities a deep and long-standing interest in the problem of crop losses. Time and time again, the burden of crop failure has grown beyond the immediate resources of individual farmers, communities, and States. In consequence, the Federal Government frequently has been called upon to extend aid to victims of crop failure to prevent economic disintegration and human misery from overtaking rural communities which have been scorched by drought, waterlogged by flood, or plagued by insects. In the 10 years prior to 1936 the Federal Government distributed approximately 615 million dollars in emergency seed and feed loans, drought relief, and rural rehabilitation—expenditures to a large degree stemming out of adverse crop conditions.

Until the development of an "all-risk" crop insurance plan, the Federal Government has been called upon to mitigate the effects of crop failure only after the losses had occurred, to patch up in a temporary way the resulting economic damages. Such relief measures, while necessary, have given farmers no assurance that the next poor crop year might not bring further disaster which would undo all of the repair work that had been accomplished.

Thus, it seemed like sound business for the Government to explore a system of crop insurance, by which growers themselves might budget the cost of crop failure as a part of their normal farming overhead.

CROP INSURANCE LEGISLATION

The Federal Crop Insurance Act, approved February 16, 1938, authorized the establishment of the Federal Crop Insurance Corporation as an agency of the Department of Agriculture to carry out an operating program of all-risk yield insurance for wheat, starting with the 1939 crop. In addition, the agency was empowered to undertake research exploring the possibilities of similar insurance for other important farm crops.

Wheat was selected as the basic crop in the development of all-risk insurance because the wheat crop of the Nation is grown over a large area of the country and has been particularly subject to widespread disasters, and because yield and loss data were already available for large numbers of individual wheat farms, providing the foundation of actuarial tables for an operating insurance program.

CAPITAL FUND

The Federal Crop Insurance Act provided that the Corporation should have an authorized capital stock of 100 million dollars subscribed by the United States of America.

Under the Department of Agriculture Appropriation Act of 1939, 20 million dollars was made available to the Secretary of the Treasury for purchase of capital stock of the Corporation.

Under the Second Deficiency Appropriation Act, approved June 27, 1940, an additional 20 million dollars was made available to the Secretary of the Treasury for purchase of capital stock of the Corporation. The capital stock for this appropriation had not been issued as of June 30, 1940, and consequently this amount is not reflected in 1940 fiscal reports.

ADMINISTRATIVE FUNDS

The Federal Crop Insurance Act authorized an appropriation not to exceed 6 million dollars for each fiscal year to cover operating and administrative expenses of the Corporation, including the costs of storing wheat in the insurance reserve.

Administrative and operating costs in the fiscal year 1940 were provided by an appropriation of \$5,423,200, and a reappropriation of \$500,000 of unexpended balance of 1939 funds, under the Department of Agriculture Appropriation Act of 1940, approved June 30, 1939.

ORGANIZATION

The activities of the Corporation are administered through the following organization:

1. A board of directors, appointed by the Secretary of Agriculture. Members of the board of directors as of July 1, 1940, were R. M. Evans, Administrator of the Agricultural Adjustment Administration; C. W. Kitchen, Chief of the Agricultural Marketing Service; and R. B. Stauber, in charge Land Policy—Credit Coordination.

2. The manager, appointed by the board of directors. The manager is Leroy K. Smith.

3. An executive office in Washington, D. C., to conduct policy making and general administration, to direct research and educational work, and to coordinate the Corporation activities with those of other Department agencies.

4. Five branch offices to administer in their respective areas those phases of the program relating to the acceptance of applications for insurance, auditing premium payments, operation of wheat insurance reserves, approval of claims for loss, and disbursements of indemnity payments. Branch offices are located at Washington, D. C.; Chicago, Ill.; Kansas City, Mo.; Minneapolis, Minn.; and Spokane, Wash.

5. A grain control office, located at Chicago, Ill., to provide over-all coordination of the purchase, storage, and sale of grain by the five branch offices. Early in the 1941 fiscal year, the grain control office was moved to Kansas City, Mo.

6. Field administration, through a cooperative agreement with the Agricultural Adjustment Administration, is conducted by State and county committees of the agricultural conservation program. Committees handle the establishment of insurable yields and premium rates for individual farms on the basis of formulas and procedures determined by the Corporation, accept growers' applications, collect premiums, measure insured acreages, and adjust claims for crop losses.

PLAN OF OPERATION

TYPE OF INSURANCE

Under the wheat crop insurance program a grower may obtain a contract insuring either 50 or 75 percent of the determined average yield of such crop on his farm against loss due to unavoidable

causes, including drought, flood, hail, wind, winter-kill, lightning, tornado, insect infestation, plant diseases, and other natural unavoidable hazards. Thus, insurance is called "all-risk." An insured grower is not protected against loss in yield resulting from neglect, poor farming practices, or from causes which he is in a position to prevent.

"ALL-WHEAT" BASIS

An unusual feature of the crop insurance plan is that the insurance is written in terms of bushels and premiums are likewise stated in terms of bushels. Premiums paid by growers are maintained in an insurance reserve of actual wheat in storage. The "all-wheat" method of operating enables the Corporation to avoid any insurance of price risks and to insure production risks only.

YIELDS INSURED

The average yields which may be insured are determined from records of yields for a representative period of years for each individual farm or if such records are not available or applicable the average is appraised.

PREMIUM RATES

Payment for insurance protection by growers is made in the form of an annual premium as in other types of insurance. The amount of the premium is proportionate to the actual or appraised crop-loss experience for a representative period of years for the individual farm blended with the general crop-loss experience of the county in which it is located. The annual premium is an amount stated in bushels which over the representative period of years should equal expected losses. In other words, the premium is an annual installment on the cost of crop loss for the farm.

Premiums may be paid in actual wheat or in the cash value of wheat at the time payment is made. Where premiums are paid in the cash equivalent, the Corporation immediately buys wheat with the proceeds to become a part of the insurance reserve.

WHEAT RESERVES

An insurance reserve of actual wheat in storage is built up by the Corporation as growers pay premiums. Such wheat is available for the payment of indemnities to growers. The wheat reserves of the crop insurance program operate as part of the ever-normal granary for wheat. Wheat going into the reserve definitely is taken off the market until it is required to pay indemnities. Consequently, in years of surplus production the reserve absorbs a part of the surplus. In years of short crops when losses are extensive, wheat automatically is released from the reserve to be returned or sold for the account of growers who have suffered losses.

INDEMNITIES

A grower is entitled to an indemnity with respect to an insured crop when the total production on such a crop is less than the insured production. For example, if insurance is written on 100 acres for a

farm on which the average yield was 12 bushels, the amount of insured production under 75-percent insurance would be 900 bushels. If he produced 600 bushels he would be indemnified for a loss of 300 bushels. A grower may receive such indemnity in the form of a warehouse receipt for wheat in storage, or in the cash value of such wheat, at the price current at the time the indemnity is approved or, if the farmer chooses, he could defer payment of his claim up to, but not later than 90 days, selecting the day within that period on which he wanted settlement made. Because wheat stocks are not always conveniently located and since indemnity payments in certain years will exceed the wheat reserve the Corporation reserves the right to pay indemnities in either wheat or the cash equivalent, whichever is most feasible to deliver to the grower.

CAPITAL RESERVE

While crop losses can be forecast actuarially for a representative period of years, the crop conditions and the extent of losses may vary widely from the average in any one season. Also, widespread crop failures often occur in some areas in series of 2 or 3 years, or more. Consequently, it cannot be expected that total premiums paid by growers each year will balance that year's indemnity requirements. In seasons of small crop losses premiums may exceed indemnities, and, conversely, in years of above-average crop losses indemnities may exceed premiums. To enable the Corporation to balance the good crop years with the bad, and at the same time to maintain insurance protection for growers at long-range premium rates, the capital fund was provided.

WRITING INSURANCE

ESTABLISHING YIELDS AND RATES

Prior to offering insurance contracts to wheat growers on the 1940 crop, average yields and premium rates were established by county committees for all farms for which wheat allotments had been made under the agricultural conservation program. The average yield and premium rate for each farm were computed from the yield history of the farm for the 9-year base period, 1930-38, adjusted to reflect the crop experience for a longer and more representative period. Where dependable records of yields and losses were not available for a farm, the average yield and premium rate were appraised by the county committee on the basis of the yield and rate for a similar farm computed from reliable and applicable crop records. All growers were notified of the average yield and premium rate for their farms and schedules of such yields and premium rates were maintained in the county offices for availability at the time the growers made application for insurance.

1940 INSURANCE CONTRACTS

Applications for contracting for insurance with respect to the 1940 wheat crop were made available to the growers prior to the seeding of the crop with the requirement that the applications be completed by filing with the application the premium payment before seeding of the crop, and not later than certain closing dates which varied

from September 15 to November 30 in the winter wheat area. The closing date for all spring wheat was February 29, 1940.

To obtain insurance the grower was required to fill out an application with information as to his intended plantings for 1940. The premium was payable at the time his application was completed and could be paid by: (1) Presenting a warehouse receipt for wheat in the amount specified by the application as the premium; (2) payment of the cash value at the current market price of the amount of wheat specified as the premium; (3) executing a request for an advance from the Secretary of Agriculture against payments earned or to be earned under the national farm program. Upon acceptance of the application by the Corporation, the insurance contract came into being, and the insurance attached upon the seeding of the crop.

FINANCIAL REPORT 1940 FISCAL YEAR

GENERAL

Due to the particular requirements of a yield-insurance program in which insured yields, premiums, and indemnities are computed in terms of bushels, those portions of the accounts as the insurance reserve and the wheat inventory are expressed in terms of the commodity, bushels of wheat. Monetary values arising from cash transactions are handled in accordance with standard accounting practice.

The insurance reserve, expressed in terms of bushels of wheat, is maintained by crop years and represents insurance premiums less indemnities.

The financial and wheat positions of the Corporation as of June 30, 1940, are reflected in the following tabulations and in tables 1 to 7.

BALANCE SHEET (MONETARY) AS OF JUNE 30, 1940

Assets

Cash:		
With Treasurer of United States-----	\$2, 831, 983. 65	
On hand and in banks-----	232, 395. 96	
Total -----	3, 064, 379. 61	
Capital fund—unrequisitioned from United States Treasury----	12, 000, 000. 00	
Accounts receivable:		
Uncompleted sales of wheat (table 2)-----	152, 765. 29	
Other-----	4, 227. 29	
Total -----	156, 992. 58	
Other assets:		
Wheat inventory:		
In store (stated at cost value)-----	10, 737, 860. 06	
Purchase commitments-----	7, 347. 95	
Total -----	10, 745, 208. 01	
Less sales commitments-----	152, 765. 29	
Net inventory-----	10, 592, 442. 72	
Refundable inbound switching-----	8, 616. 02	
Total -----	10, 601, 058. 74	
Total assets other than interagency-----	25, 822, 430. 93	

Interagency assets:

Due from Agricultural Adjustment Administration, Agricultural Conservation Program advances-----	725, 040. 35
Total assets-----	26, 547, 471. 28

Liabilities and capital stock

Accounts payable:

Uncompleted purchases of wheat (table 2)-----	7, 347. 95
Other-----	1, 162. 29
Total-----	8, 510. 24

Operating reserve-----	6, 538, 961. 04
------------------------	-----------------

Total liabilities-----	6, 547, 471. 28
------------------------	-----------------

Capital stock-----	20, 000, 000. 00
--------------------	------------------

Total liabilities and capital stock-----	26, 547, 471. 28
--	------------------

NOTE.—The estimated insured production amounts to 107 million bushels of wheat for the 1940 crop year. Based on present estimates from the field 20 million bushels will be paid in indemnities subsequent to June 30, 1940, which at an estimated average cash equivalent price of 60 cents per bushel, amounts to 12 million dollars for which the Corporation may be contingently liable.

BALANCE SHEET (WHEAT) AS OF JUNE 30, 1940

1939 crop year:

	<i>Bushels</i>
Indemnities paid-----	10, 163, 127
Less premium collections-----	6, 684, 215

Excess of indemnities over premiums (table 3)-----	3, 478, 912
--	-------------

NOTE.—The deficit for the crop year 1939 does not affect the wheat inventory position as wheat stocks have been maintained in line with the insurance reserve of the current crop year. (See text of report under "Wheat Inventory," p. 14.)

1940 crop year—Assets:

Wheat inventory:

In store (tabulated below, p. 8)-----	12, 666, 070
Purchase commitments (table 2)-----	11, 964
Total-----	12, 678, 034
Less sales commitments (table 2)-----	194, 977
Net inventory-----	12, 483, 057
Total assets-----	12, 483, 057

1940 crop year—Liabilities:

Deposits for future premiums:

1939 deposits unapplied as 1940 premiums-----	121, 481
1940 deposits to be applied as 1941 premiums-----	6, 637

Total, Deposits for future premiums-----	128, 118
--	----------

Indemnities payable—deferred settlement-----	1, 193, 805
--	-------------

Insurance reserve:

Premium collections-----	14, 171, 979
Less indemnities paid and accrued-----	3, 076, 232

Net insurance reserve-----	11, 095, 747
----------------------------	--------------

1940 crop year—Liabilities—continued.

Long position:

Indemnities payable—approved for immediate settlement—	521,828
Less partial sales of wheat to cover indemnities payable—	
approved for immediate settlement—	456,441

Net long position—	65,387
--------------------	--------

Total liabilities—	12,483,057
--------------------	------------

NOTE.—Wheat is not sold to meet "Indemnities payable—deferred settlement" until request for payment is received from the insured and the cash equivalent is established.

WHEAT IN STORE AS OF JUNE 30, 1940

<i>Location and class</i>	<i>Bushels</i>	<i>Location and class</i>	<i>Bushels</i>
Idaho:		Oklahoma:	
Hard Red Winter—	97,110	Hard Red Winter—	473,258
Soft White—	50,535	Mixed—	5,891
Western White—	3,257		
White Club—	3,154	Total—	479,149
Total—	154,056		
		Oregon:	
Illinois:		Hard Red Winter—	19,484
Hard Red Winter—	10,000	Soft White—	96,021
Soft Red Winter—	75,000	Western White—	6,949
Total—	85,000	Hard White—	27,341
		White Club—	7,658
Indiana:		Total—	157,453
Hard Red Winter—	50,000		
Iowa:		Washington:	
Hard Red Winter—	307,272	Hard Red Winter—	24,375
		Soft White—	154,249
Kansas:		Western White—	138,277
Hard Red Winter—	2,362,359	Hard White—	5,955
Dark Hard Red Win-		White Club—	25,173
ter—	235,000	Western Red—	40,110
Soft Red Winter—	180,000	Total—	388,139
Total—	2,777,359		
		Wisconsin:	
Minnesota:		Dark Northern Spring—	321,190
Hard Red Winter—	53,577	Hard Amber Durum—	215,092
Dark Hard Red Win-		Total—	536,282
ter—	56,500		
Dark Northern Spring—	2,791,536	Tennessee:	
Hard Amber Durum—	215,101	Soft Red Winter—	10,000
Total—	3,116,714		
		Texas:	
Missouri:		Hard Red Winter—	922,970
Hard Red Winter—	1,032,906	Dark Hard Red Win-	
Soft Red Winter—	1,121,670	ter—	19,132
Total—	2,154,576	Mixed—	25,000
		Total—	967,102
Nebraska:		Grand total—	12,666,070
Hard Red Winter—	1,482,968		

SUMMARY BY CLASS OF WHEAT IN STORE AS OF JUNE 30, 1940

<i>Class</i>	<i>Bushels</i>	<i>Class</i>	<i>Bushels</i>
Hard Red Winter—	6,836,279	Soft White—	300,805
Dark Hard Red Winter—	310,632	Western White—	148,483
Mixed—	30,891	Hard White—	33,296
Soft Red Winter—	1,386,670	White Club—	35,985
Dark Northern Spring—	3,112,726	Western Red—	40,110
Hard Amber Durum—	430,193	Total—	12,666,070

TABLE 1.—*Summary, by States, of flat wheat and wheat with applied billing in store as of June 30, 1940*

State	Total	Flat	Wheat with applied billing	State	Total	Flat	Wheat with applied billing
	<i>Bushels</i>	<i>Bushels</i>	<i>Bushels</i>		<i>Bushels</i>	<i>Bushels</i>	<i>Bushels</i>
Idaho.....	154,056	154,056		Oklahoma.....	479,149	439,149	40,000
Illinois.....	85,000		85,000	Oregon.....	157,453	157,453	
Indiana.....	50,000		50,000	Washington.....	388,139	205,213	182,926
Iowa.....	307,272	5,000	302,272	Wisconsin.....	536,282		536,282
Kansas.....	2,777,359	330,497	2,446,862	Tennessee.....	10,000		10,000
Minnesota.....	3,116,714		3,116,714	Texas.....	967,102	58,627	908,475
Missouri.....	2,154,576	18,000	2,136,576	Total.....	12,666,070	1,715,300	10,950,770
Nebraska.....	1,482,968	347,305	1,135,663				

TABLE 2.—*Wheat-purchase and wheat-sales commitments as of June 30, 1940*

WHEAT-PURCHASE COMMITMENTS

Vendor or vendee	Quantity	Class	Value
	<i>Bushels</i>		<i>Dollars</i>
Commodity Credit Corporation.....	3,964	Dark Hard Red Winter.....	2,361.70
Farmers Grain and Supply Co.....	3,000	Hard Red Winter.....	1,886.25
Perryton Equity Exchange.....	5,000	do.....	3,100.00
Total.....	11,964		7,347.95

WHEAT-SALES COMMITMENTS

Archer Daniels Midland Co.....	25,000	Dark Northern Spring.....	18,781.25
Arkansas City Flour Mills.....	50,000	Hard Red Winter.....	35,062.50
Greely Elevator Co.....	11,275	Western Red.....	8,118.54
Do.....	13,702	Soft White.....	9,865.50
Indiana Grain Cooperative.....	10,000	Hard Red Winter.....	9,125.00
International Milling Co.....	65,000	do.....	55,412.50
Williams Brothers Co.....	20,000	Soft Red Winter.....	16,400.00
Total.....	194,977		152,765.29

TABLE 3.—Schedule of insurance operations, classified by areas and by States, for the crop years 1939 and 1940, as of June 30, 1940

CROP YEAR 1939

Area and State	Contracts completed	Premiums paid	Indemnities paid		Surplus or deficit	Insured production	Insured acreage	Acreage on which indemnities were paid
	Number	Bushels	Number	Bushels	Bushels	Bushels	Acres	Acres
Chicago:								
Illinois.....	12,190	185,057	970	58,294	+126,763	2,912,253	267,161	17,478
Indiana.....	11,157	141,556	2,573	148,690	-7,134	2,020,303	163,679	35,813
Iowa.....	4,645	57,148	1,782	127,312	-70,164	894,064	72,599	23,820
Michigan.....	5,057	30,545	934	39,481	-8,936	739,664	49,233	9,221
Ohio.....	10,253	131,215	1,907	101,168	+30,047	1,737,600	123,497	21,802
Total for Chicago area.....	43,302	545,521	8,166	474,945	+70,576	8,363,884	676,169	108,134
Kansas City:								
Colorado.....	1,430	78,366	760	186,925	-108,559	582,410	70,711	40,745
Kansas.....	14,886	776,568	5,741	1,745,985	-969,417	7,327,446	882,567	424,909
Missouri.....	15,735	197,000	2,836	171,398	+25,602	3,264,641	343,102	49,604
Nebraska.....	13,197	495,528	8,709	1,278,339	-782,811	3,923,750	427,114	253,057
New Mexico.....	111	12,153	72	30,605	-18,452	71,532	8,356	4,018
Oklahoma.....	8,635	270,313	2,996	477,380	-207,067	4,016,729	463,908	121,006
Texas.....	3,677	396,006	2,362	1,017,657	-621,651	2,528,238	346,966	225,710
Total for Kansas City area.....	57,671	2,225,934	23,476	4,908,289	-2,682,355	21,714,746	2,542,724	1,119,049
Minneapolis:								
Minnesota.....	10,211	172,637	2,615	155,034	+17,603	2,198,867	250,032	48,035
Montana.....	5,200	663,537	1,747	681,311	-17,774	4,425,554	536,042	173,099
North Dakota.....	28,091	1,953,884	10,238	1,653,002	+300,882	12,308,941	2,080,758	654,519
South Dakota.....	10,643	730,069	7,633	1,592,046	-861,977	2,796,008	519,422	371,739
Wisconsin.....	183	1,228	119	6,500	-5,272	15,578	1,199	849
Wyoming.....	321	29,478	235	84,035	-54,557	207,101	23,407	16,397
Total for Minneapolis area.....	54,649	3,550,833	22,587	4,171,928	-621,095	21,952,049	3,401,860	1,264,638
Spokane:								
California.....	1,002	73,420	389	252,087	-178,667	1,558,732	111,160	39,376
Idaho.....	1,708	76,623	235	76,628	-5	2,042,027	128,901	12,559
Nevada.....	38	552	19	3,526	-2,974	15,421	732	336
Oregon.....	662	62,204	188	101,107	-38,903	1,368,920	93,086	25,885
Utah.....	452	22,344	159	63,187	-40,843	513,804	32,713	11,265
Washington.....	1,332	86,621	239	86,789	-168	2,262,883	167,958	22,363
Total for Spokane area.....	5,194	321,764	1,229	583,324	-261,560	7,761,787	534,556	111,784
Washington, D. C.:								
Delaware.....	79	858	14	668	+190	22,208	1,766	308
Maryland.....	985	10,895	151	7,163	+3,792	290,905	22,997	3,167
New Jersey.....	29	190	3	170	+20	5,778	380	43
New York.....	652	5,030	56	5,180	-150	149,854	8,756	733
Pennsylvania.....	2,299	15,823	152	7,709	+8,114	448,933	30,449	2,058
Virginia.....	916	7,348	78	3,811	+3,537	189,239	15,362	1,052
West Virginia.....	1	19	-----	-----	+19	402	37	-----
Total for Washington, D. C. area.....	4,961	40,163	454	24,641	+15,522	1,107,319	79,747	7,361
Grand total.....	165,777	6,684,215	55,912	10,163,127	-3,478,912	60,839,785	7,235,050	2,610,966

See footnote bottom page 11.

TABLE 3.—Schedule of insurance operations, classified by areas and by States, for the crop years 1939 and 1940, as of June 30, 1940—continued.

CROP YEAR 1940 ²

Area and State	Contracts completed	Premiums paid	Indemnities paid		Surplus or deficit ¹	Estimated insured production	Estimated insured acreage
	<i>Number</i>	<i>Bushels</i>	<i>Number</i>	<i>Bushels</i>	<i>Bushels</i>	<i>Bushels</i>	<i>Acres</i>
Chicago:							
Illinois.....	14,899	215,972	37	4,503	+211,469	3,248,136	293,153
Indiana.....	28,374	280,117	73	8,985	+271,132	4,048,328	333,134
Iowa.....	7,229	99,504	26	5,639	+93,865	1,267,949	103,099
Kentucky.....	981	15,801	8	1,498	+14,303	160,862	15,952
Michigan.....	15,945	86,961	15	1,387	+85,574	1,904,061	135,427
Ohio.....	28,771	304,625	30	2,639	+301,986	4,230,135	314,085
Tennessee.....	245	2,794	1	41	+2,753	43,969	4,973
Total for Chicago area.....	96,444	1,005,774	190	24,692	+981,082	14,903,440	1,199,823
Kansas City:							
Colorado.....	3,709	263,029			+263,029	1,071,005	149,174
Kansas.....	60,506	3,701,197	2,317	1,023,341	+2,677,856	23,682,287	3,068,353
Missouri.....	21,687	244,520	102	7,785	+236,731	3,505,491	367,292
Nebraska.....	57,244	1,991,788	5,939	1,003,070	+988,718	13,533,020	1,413,999
New Mexico.....	62	12,467	7	7,306	+5,161	39,634	7,952
Oklahoma.....	23,387	881,115	1,268	227,016	+654,099	8,600,032	1,054,544
Texas.....	11,030	1,075,553	1,612	582,136	+493,417	5,221,211	839,933
Total for Kansas City area.....	177,625	8,169,669	11,245	2,850,658	+5,319,011	55,652,680	6,901,247
Minneapolis:							
Minnesota.....	21,281	345,920	22	1,078	+344,842	3,360,414	341,364
Montana.....	4,175	541,789			+541,789	2,231,372	291,741
North Dakota.....	31,671	2,006,603			+2,006,603	10,625,004	1,471,922
South Dakota.....	21,046	1,103,747	64	10,158	+1,093,589	3,967,280	597,981
Wisconsin.....	558	3,236	1	99	+3,137	38,800	3,285
Wyoming.....	1,285	128,764			+128,764	530,769	84,342
Total for Minneapolis area.....	80,016	4,130,059	87	11,335	+4,118,724	20,753,199	2,790,635
Spokane:							
California.....	2,155	154,688	226	188,602	-33,914	2,302,315	164,348
Idaho.....	6,873	145,307	1	175	+145,132	2,846,382	158,781
Nevada.....	107	2,113			+2,113	36,999	1,866
Oregon.....	2,012	229,485			+229,485	3,336,962	244,061
Utah.....	682	25,577			+25,577	354,240	26,720
Washington.....	3,624	235,645	2	450	+235,195	5,547,967	353,957
Total for Spokane area.....	15,453	792,815	229	189,227	+603,588	14,424,865	949,733
Washington, D. C.:							
Delaware.....	455	4,237	1	83	+4,154	103,113	8,981
Maryland.....	1,265	15,137			+15,137	413,210	34,541
New Jersey.....	112	598			+598	17,945	1,196
New York.....	908	6,310			+6,310	135,959	9,342
North Carolina.....	202	973			+973	31,810	2,063
Pennsylvania.....	5,865	36,145	3	237	+35,908	979,568	68,371
Virginia.....	1,176	10,262			+10,262	251,231	20,199
Total for Washington, D. C., area.....	9,983	73,662	4	320	+73,342	1,932,836	144,693
Grand total.....	379,521	14,171,979	11,755	3,076,232	+11,095,747	107,667,020	11,986,131

¹ +Surplus represents excess of premiums paid over indemnities paid. -Deficit represents excess of indemnities paid over premiums paid.² Interim report, 1940 crop-year program is not complete. Acreage on which indemnities were paid is not tabulated. Actual insured production and insured acreage will not be determinable until all wheat notices of seeding have been received and tabulated. As of June 30, 1940, 91,976 wheat notices of seeding were yet to be received from producers by branch offices.

TABLE 4.—*Comparative averages, by areas and States, of insurance statistics between the crop years 1939 and 1940,¹ as of June 30, 1940*

Area and State	Average premiums paid per contract				Average insured production per contract		Average insured acreage per contract	
	1939		1940		1939	1940	1939	1940
	<i>Bushels</i>	<i>Pounds</i>	<i>Bushels</i>	<i>Pounds</i>	<i>Bushels</i>	<i>Bushels</i>	<i>Acres</i>	<i>Acres</i>
Chicago:								
Illinois.....	15	11	14	30	239	218	21.9	19.7
Indiana.....	12	41	9	52	181	143	14.7	11.7
Iowa.....	12	18	13	46	192	175	15.6	14.3
Kentucky.....			16	6		164		16.3
Michigan.....	6	2	5	27	146	119	9.7	8.5
Ohio.....	12	48	10	35	169	147	12.0	10.9
Tennessee.....			11	24		179		20.3
Kansas City:								
Colorado.....	54	48	70	55	407	289	49.4	40.2
Kansas.....	52	10	61	10	492	391	59.3	50.7
Missouri.....	12	31	11	16	207	162	21.8	16.9
Nebraska.....	37	33	34	47	297	236	32.4	24.7
New Mexico.....	109	29	201	5	644	659	75.3	128.3
Oklahoma.....	31	18	37	41	465	368	53.7	45.1
Texas.....	107	42	97	31	688	473	94.4	76.1
Minneapolis:								
Minnesota.....	16	55	16	15	215	158	24.5	16.0
Montana.....	127	36	129	46	851	534	103.1	69.9
North Dakota.....	69	34	63	22	438	335	74.1	46.5
South Dakota.....	68	36	52	26	263	189	48.0	28.4
Wisconsin.....	6	43	5	48	85	69	6.6	5.9
Wyoming.....	91	50	100	13	645	413	72.9	65.6
Spokane:								
California.....	73	16	71	47	1,556	1,068	110.9	76.3
Idaho.....	44	52	21	8	1,196	414	75.5	23.1
Nevada.....	14	32	19	44	406	346	19.2	17.4
Oregon.....	93	58	114	4	2,068	1,659	140.6	121.3
Utah.....	49	26	37	30	1,137	519	72.4	39.2
Washington.....	65	2	65	1	1,699	1,531	126.1	97.7
Washington, D. C.:								
Delaware.....	10	52	9	19	281	227	22.4	19.7
Maryland.....	11	4	11	58	295	327	23.3	27.3
New Jersey.....	6	33	5	20	199	160	13.1	10.7
New York.....	7	43	6	57	230	150	13.4	10.3
North Carolina.....			4	49		157		10.2
Pennsylvania.....	6	53	6	10	195	167	13.2	11.7
Virginia.....	8	1	8	44	207	214	16.8	17.2
West Virginia.....	18	30			402		37.0	

¹ Interim report, 1940 crop year subject to revision.TABLE 5.—*Comparative balance sheet of the cumulative administrative fund for the fiscal years ended June 30, 1939, and June 30, 1940, as of June 30, 1940*

Item	June 30, 1939	June 30, 1940
Assets:		
Cash on deposit with Treasurer of United States to cover unliquidated encumbrances less receivables.....	\$1,694.86	\$390,583.35
Accounts receivable.....	88.56	105.35
Office equipment.....	173,977.39	198,343.31
Total assets.....	175,760.81	589,032.01
Liabilities:		
Surplus (table 6):		
Paid in surplus—cumulative administrative appropriations for the fiscal years 1938, 1939, and 1940, less unencumbered balance \$764,554.21.....	4,617,664.07	10,372,577.09
Less cumulative operating and administrative expenses.....	4,443,686.68	10,174,233.78
Surplus (office equipment).....	173,977.39	198,343.31
Accounts payable—unliquidated encumbrances.....	1,783.42	390,688.70
Total liabilities.....	175,769.81	589,032.01

TABLE 6.—*Surplus analysis of the administrative fund for the fiscal years 1938 to 1940, as of June 30, 1940*

Item	Fiscal year 1938	Fiscal year 1939	Fiscal year 1940	Total
Appropriation.....	\$965,000.00	\$5,500,000.00	\$5,423,200.00	\$11,888,200.00
Transfers between appropriations.....		-500,000.00	+500,000.00	
	965,000.00	5,000,000.00	5,923,200.00	11,888,200.00
Less reduction in appropriation allotment.....	726,714.51	24,542.00		751,256.51
	238,285.49	4,975,458.00	5,923,200.00	11,136,943.49
Add donated equipment.....			187.81	187.81
Total.....	238,285.49	4,975,458.00	5,923,387.81	11,137,131.30
Deduct unencumbered balance.....	3,739.42	592,340.00	168,474.79	764,554.21
Paid in surplus.....	234,546.07	4,383,118.00	5,754,913.02	10,372,577.09
Less operating and administrative expenses.....	145,669.85	4,298,016.83	5,730,547.10	10,174,233.78
Surplus (office equipment—table 5).....	88,876.22	85,101.17	24,365.92	198,343.31

TABLE 7.—*Comparative statement of operating and administrative expense and appropriation reconciliation for the fiscal years ended June 30, 1939, and June 30, 1940, as of June 30, 1940*

Item	Expenses for the fiscal year ended—		Increase or decrease as of 1940
	June 30, 1939	June 30, 1940	
Direct expense except wheat storage:			
Personal services.....	\$1,260,731.12	\$1,100,490.24	-\$160,240.88
Supplies and materials.....	93,046.86	40,702.67	-52,344.19
Communication service.....	21,549.21	23,816.82	+2,267.61
Travel expense.....	51,928.07	50,441.95	-1,486.12
Transportation of things.....	12,574.09	11,934.05	-640.04
Printing and binding.....	56,285.50	770.89	-55,514.61
Advertising and publications.....	114.59		-114.59
Heat, light, power, etc.....	378.63	3,514.62	+3,135.99
Rents.....	45,367.03	55,598.15	+10,231.12
Repairs and alterations.....	363.72	1,999.09	+1,635.28
Special and miscellaneous expense.....	21,299.32	13,952.09	-7,347.23
Total direct expense except wheat storage.....	1,563,638.14	1,303,220.48	-260,417.66
Wheat storage.....	302,961.13	888,655.62	+585,694.49
Total direct expense.....	1,866,599.27	2,191,876.10	+325,276.83
Expense of cooperating agencies:			
Office of the Secretary.....	27,745.00	33,282.00	+5,537.00
Bureau of Agricultural Economics.....	51,390.00	71,150.00	+19,850.00
Office of Information.....		5,000.00	+5,000.00
Office of the Solicitor.....	48,786.00	45,215.00	-3,571.00
Agricultural Marketing Service.....	24,692.00	28,333.00	+3,645.00
Agricultural Adjustment Administration.....	2,275,596.56	3,346,850.00	+1,071,253.44
Division of Disbursements—Treasury Department.....	3,297.00	8,836.00	+5,539.00
Total expense of cooperating agencies.....	2,431,417.56	3,538,671.00	+1,107,253.44
Total expense.....	4,298,016.83	5,730,547.10	+1,432,530.27
Equipment purchased.....	85,101.17	24,178.11	-60,923.06
Total expenditure.....	4,383,118.00	5,754,725.21	+1,371,607.21
Unexpended balance.....	592,340.00	168,474.79	-423,865.21
Total appropriation.....	4,975,458.00	5,923,200.00	+947,742.00

¹ After the transfer of \$500,000 to the 1940 appropriation and a reduction in the appropriation allotment of \$24,542.

² Includes \$500,000 transferred from unexpended balance of 1939 appropriation.

COMMENTS ON BALANCE SHEET—GRAIN ACCOUNTS

CASH

The cash of the Corporation amounting to \$3,064,379.61 is deposited with the Chief Disbursing Officer of the Treasury in banks approved by the Secretary of the Treasury. The facilities of the Disbursing Office of the Treasury are used by the Corporation for deposits and disbursements.

Receipts consist of capital funds for subscription to capital stocks, premium collections, and the proceeds of wheat inventory sales. Expenditures are made for the purchase of wheat stocks and the payment of indemnities in the cash equivalent of wheat losses. The cost of wheat storage is paid from a separate administrative fund.

CAPITAL FUND—UNREQUISITIONED FROM UNITED STATES TREASURY

Twenty million dollars was made available to the Treasurer of the United States for subscription to capital stock for the fiscal year 1939.

Although 16.5 million dollars was requisitioned from the Treasury during the fiscal years 1939 and 1940 to be used as a working fund for insurance operations, 8.5 million dollars was returned to the Treasury during the fiscal year 1940, leaving an uncalled balance of 12 million dollars of the total subscription to capital stock.

WHEAT INVENTORY

As of June 30, 1940, the wheat inventory amounted to 12,483,057 bushels at a cost value of \$10,601,058.74.

Wheat stocks are being maintained in line with the insurance reserve position of the current crop year, plus any accumulated reserve for prior crop years.

This practice protects the insurance liability of the Corporation from price fluctuations to the extent of the wheat inventory.

In actual operation, farmers generally pay cash premiums based on the value of their premium in wheat at their local station. Consequently, it is necessary for the Corporation immediately to buy wheat in the amount represented by the premiums for the reserve. The majority of purchases are usually made in subterminal and terminal markets where the per-bushel value of wheat is higher than at country stations to the extent of freight and handling charges incurred to move such wheat to the terminal or subterminal market. Thus, the Corporation must invest a certain amount in differentials as a part of the purchase price of such wheat, and capital funds are used for this purpose. Such funds are recovered when the wheat is sold to pay indemnities. However, the corporation has purchased as much wheat as possible at country stations for use in paying insured growers whose crops have not yielded the amount guaranteed under the contract.

The wheat inventory is stated at cost value. No consideration is given to the current market value for inventory purposes since any price changes of the wheat between purchase and sale are passed on to the insured in the cash equivalent of the indemnity paid.

A summary of wheat operations and the inventory relationship with the insurance reserve is shown in the following tabulation:

Insurance reserve—1940 crop year, (tabulation on p. 7) :	<i>Bushels</i>
Premium collections-----	14, 171, 979
Less indemnities paid and accrued-----	3, 076, 232
Insurance reserve-----	11, 095, 747
Deposits for future premiums-----	128, 118
Total insurance reserve and deposits-----	11, 223, 865
Add indemnities approved for deferred payment for which the cash equivalent has not been established and wheat has not been sold-----	1, 193, 805
Total wheat-stock requirement-----	12, 417, 670
Inventory as of June 30, 1940-----	12, 417, 670
Long position as of June 30, 1940-----	65, 387

Either a long or short wheat position arises because a slight lapse of time exists between the purchase and sale of wheat and changes in the insurance reserve.

A summary of wheat transactions for the fiscal year 1940, showing allocation as to flat wheat and wheat with applied billing, is shown in table 8.

TABLE 8.—Summary of wheat transactions for the fiscal year 1940, with allocations as to flat wheat and wheat with applied billing.

Item	Total	Flat wheat	Wheat with applied billing
Wheat transactions:	<i>Bushels</i>	<i>Bushels</i>	<i>Bushels</i>
Wheat in store as of June 30, 1939-----	6, 024, 075	211, 237	5, 812, 788
Add purchase of wheat completed-----	13, 000, 481	1, 724, 270	11, 276, 211
	19, 024, 556	1, 935, 557	17, 088, 999
Deduct:			
Sales of wheat, completed-----	5, 550, 513	13, 153	5, 537, 360
Indemnities paid in wheat-----	807, 973	207, 104	600, 869
	6, 358, 486	220, 257	6, 138, 229
Wheat in store as of June 30, 1940 (tabulation, p. 8)-----	12, 666, 070	1, 715, 300	10, 950, 770
Add purchase commitments (table 2)-----	11, 964	11, 934	-----
	12, 678, 034	1, 727, 264	10, 950, 770
Deduct sales commitments (table 2)-----	194, 977	-----	194, 977
Inventory as of June 30, 1940-----	12, 483, 057	1, 727, 264	10, 755, 793

The tabulation, p. 8, reflects the classification of the wheat inventory in store, showing the location by States, class, quantity, and a summary of flat wheat and wheat with applied billing.

INTERAGENCY ASSETS

During the fiscal year 1940 approximately 95 percent of the premiums on insurance contracts, amounting to \$9,149,546.68, were paid by means of an advance by the Agricultural Adjustment Administration for the account of farmers entitled to receive agricultural-conservation-program payments.

During the fiscal year 1940 the Corporation received \$8,424,506.33 from the Agricultural Adjustment Administration as a partial payment for such premiums.

The remaining amount of \$725,040.35 as shown in tabulation on page 7 is subject to adjustment based on notices of acreage seeded to wheat by farmers having insurance contracts.

Notices of seeding are now being received and recorded in branch offices. Those received have shown a 5- to 10-percent decrease in acreage seeded to wheat as compared with the acreage declared in the application on which the premium was paid; consequently, the final amount due from the Agricultural Adjustment Administration should be less than the amount indicated—\$725,040.35.

As the transfer of funds to the Corporation covering the insurance premiums for such advance by the Secretary was not completed until after the closing date for premium collections, it was necessary for the Corporation to use \$6,500,000 of its capital fund during the fiscal year 1940 for the purchase of wheat to maintain the wheat reserve.

In order that agricultural-conservation-program funds to cover advances would be available to the Corporation in future years to invest in wheat at the time the insurance is written, Congress amended the Soil Conservation and Domestic Allotment Act of 1938 to permit the Secretary of Agriculture to transfer to the Federal Crop Insurance Corporation, prior to the execution of applications for insurance or requests for advances by producers, the funds estimated as necessary to cover the advances which will be requested for the payment of premiums under a crop insurance program. This will enable the Corporation to maintain wheat reserves closely in line with the volume of premiums being paid, including advances, without the use of its capital funds as outlined above.

OPERATING RESERVE

As pointed out, the Corporation keeps one set of accounts, dealing with the insurance reserve, in terms of the commodity, without regard to monetary value. However, another set of accounts known as the "operating reserve" reflects the related money values arising from the cash transactions in the collection of premiums, purchases and sales of wheat, and payment of indemnities. This reserve as of June 30, 1940, amounted to \$6,538,961.04.

A summary of the relationship between the operating and insurance reserves for the 1939 and 1940 crop years as of June 30, 1940, is presented in table 9.

TABLE 9.—*Summary of the relationship between the operating and the insurance reserves for the crop years 1939 and 1940, as of June 30, 1940*

CROP YEAR 1939 (see table 3)

Item	Units	Insurance reserve	Operating reserve
	<i>Number</i>	<i>Bushels</i>	<i>Dollars</i>
Insurance premiums	165, 777	6, 684, 215	3, 442, 238. 59
Cost of indemnities paid	55, 912	10, 163, 127	5, 642, 363. 23
Excess of indemnities over premiums		3, 478, 912	¹ 2, 200, 124. 64

¹ The excess of cost of indemnities paid over premium collections, amounting to \$2,200,124.64, represents the use of the capital funds of the Corporation for the crop year 1939.

TABLE 9.—*Summary of the relationship between the operating and the insurance reserves for the crop years 1939 and 1940, as of June 30, 1940—continued*

CROP YEAR 1940 (see table 3)

Item	Units	Insurances reserve	Operating reserve
Insurance premiums.....	379, 521	14, 171, 979	9, 654, 259. 61
Indemnities:			
Cost of indemnities paid.....		1, 360, 599	915, 173. 93
Accrued: ²			
Immediate settlement.....		521, 828	
Deferred settlement.....		1, 193, 805	
Total indemnities.....	11, 755	3, 076, 232	915, 173. 93
Excess of premiums over indemnities.....		11, 095, 747	8, 739, 085. 68

² No monetary liability is recorded on the books of the Corporation for indemnities payable, as the cash equivalent on indemnities approved for deferred settlement is not established until request for payment thereof is received in the branch office from the insured. The cash equivalent of indemnities paid in cash is recorded at the time of payment.

A summary of the position of the insurance and operating reserves for the crop years 1939 and 1940, combined, as of June 30, 1940, is shown in table 10.

TABLE 10.—*Summary of the positions of insurance and operating reserves for the crop years 1939 and 1940 combined, as of June 30, 1940*

Crop year	Insurance reserve	Operating reserve
	<i>Bushels</i>	<i>Dollars</i>
1939.....	¹ —3, 478, 912	¹ —2, 200, 124. 64
1940 (to June 30, 1940).....	11, 095, 747	8, 739, 085. 68
Total (tabulation p. 7).....	7, 616, 835	6, 538, 961. 04

¹ Represents excess of indemnities over premiums.

Operations for the 1940 crop year are only partially complete. Many 1940 indemnities will be paid subsequent to June 30, 1940.

CAPITAL STOCK

The capital stock of the Corporation amounted to 20 million dollars as of June 30, 1940. The capital fund transactions are reflected in the following summary:

Capital stock.....	\$20, 000, 000
Requisitioned from Treasury Department, Federal Crop Insurance Corporation, capital fund.....	16, 500, 000
Returned to Treasury Department, Federal Crop Insurance Corporation, capital fund.....	8, 500, 000
Net capital funds transferred to the Corporation.....	8, 000, 000
Balance of capital fund, unrequisitioned.....	12, 000, 000

273520—40—2

The net capital fund of 8 million dollars has been used as follows:

	<i>Dollars</i>
Cash on deposit-----	3,064,379.61
Accounts receivable-----	156,992.58
Less accounts payable-----	8,510.24
	<hr/> 148,482.34
Investment in wheat to cover unpaid Agricultural Conservation Program advances due by Agricultural Adjustment Administration-----	725,040.35
Investment in 65,387 bushels of wheat in excess of reserve requirements (long position) at the average inventory cost of 84.92 cents per bushel (see inventory comment)-----	55,526.64
Excess of indemnities over premium collections, 1939-----	2,200,124.64
Investment in freight and handling included in purchase price of wheat inventory at storage points-----	1,806,446.42
	<hr/> 8,000,000.00

The amount of freight and handling per bushel invested in the wheat inventory as of June 30, 1940, is computed thus:

	<i>Bushels</i>
Inventory as of June 30, 1940 (tabulation p. 7)-----	12,483,057
Less excess of inventory over reserve requirements (long position)-----	65,387
	<hr/> 12,417,670
Inventory for computation-----	
	<i>Dollars</i>
Investment in freight and handling-----	1,806,446.42
	<i>Cents</i>
Investment in freight and handling per bushel-----	14.54

Average price of wheat at local shipping points as reflected in premium collections and indemnity payments for the 1941 crop year follows:

Inventory cost per bushel-----	84.92
Freight and handling cost per bushel-----	14.54
	<hr/> 70.38
Local shipping-point price per bushel-----	70.38
Operating reserve—1940: \$8,739,085.68÷12,417,670 bushels=-----	70.38

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses of the Corporation are paid from a separate appropriation provided each year by Congress.

The expenses consist of salaries and other operating costs of the Corporation, the expenses of other governmental agencies utilized by the Corporation in performing specialized functions in the administration of the Act, and the cost of storage of wheat stocks acquired by the Corporation in its insurance operations.

A comparison of operating and administrative expenses for the fiscal years ended June 30, 1939, and 1940 is shown in table 7.

It will be noted that the direct expenses of the Corporation, except storage, decreased \$260,417.66 during the last fiscal year. This is partly due to economies effected in the organization and in part to the transfer of certain work from the Corporation to cooperating State and county committees of the Agricultural Adjustment Administration.

Field operating expenses increased from \$2,275,596.56 in 1939 to \$3,346,850.00 in 1940, due to the increased proportion of work carried by State and county committees, and to the increase in number of insurance contracts processed. An increase in storage costs resulted from the greater supply of wheat received as premiums, with maximum inventories amounting to 14 million bushels as compared to 7 million bushels in 1939. However, it should be noted that while total crop insurance operating and administrative expenses increased 33 percent, the participation in the program rose from 165,000 to 380,000, an increase of 129 percent. Thus, there was a material decrease in the cost of administration per contract.

APPRAISAL OF 1940 OPERATIONS

ORGANIZATION

A number of factors combined to make the crop insurance program operate more smoothly and efficiently in 1940. In 1939 the program was new, untried, and required the presentation of a new concept to wheat growers over the country, by employees and workers who had had no previous experience of this nature. In 1940 the operating technique had become fairly well stabilized and direct lines of action and responsibility established. Farmers were eager to know about crop insurance and the protection that it offered them and had become versed in the essentials of the program. Employees of the Corporation and cooperating workers in the State and county Agricultural Adjustment Administration committees were more trained in establishing farm yields and rates, appraising, adjusting losses, and other work. Procedure had been greatly simplified, and various operations were more closely synchronized with those of the Department's general farm program.

INSURANCE WRITTEN

Wheat growers demonstrated an increased interest in crop insurance in 1940 when 379,521 contracts were completed in 33 states—more than double the 1939 volume. Under these contracts the Federal Crop Insurance Corporation had guaranteed the wheat growers an estimated production of 107,667,020 bushels of wheat. The accumulated wheat reserve built up from premium payments amounted to 14,171,979 bushels of wheat.

This 1940 business compares with 165,777 contracts completed from 31 States in 1939, involving a guaranteed production of 60,839,785 bushels of wheat and premium payments representing 6,684,215 bushels of wheat. Participation increased in practically all States in which the program was presented. The expansion in 1940 is attributed to an increased demand for insurance and this can partially be attributed to the wider knowledge of the program by the farmers and the increased ease with which they were able to insure. Especially helpful was the privilege of paying their premiums by means of an advance from the Secretary as in 1939 many growers had neither cash nor credit with which to pay the necessary premium because of unavoidable crop failure the preceding year or series of years. Approximately 95 percent of all premium payments were made by means of such advances.

APPRAISAL OF PARTICIPATION

The number of growers completing crop insurance contracts in 1940 and the wide distribution of the insurance coverage offer encouraging evidence as to the high degree of cooperation that may be expected from wheat growers and as to the soundness of the actuarial approach. The volume of insurance obtained in 1940 demonstrates that a large number of wheat growers understand insurance, want the protection it offers them, and are willing to make an annual investment in premiums in order to insure wheat income. Because of the large fluctuations in wheat yields and the frequent losses that marked wheat growing, premium rates are relatively high as compared to other forms of insurance. The average grower in 1940 paid a premium of 37 bushels to insure a production of 284 bushels—a premium of 13 percent. Premiums varied from 3 percent of the insured production in low-risk areas to as high as 30 percent of the insured yield in extremely high-risk areas.

It is important to the development of the insurance program that a large volume be maintained for several reasons. A large representative volume is necessary for a thorough trial of the insurance operation under widely varying farm conditions. It will spread the risk, thus making it possible for poor crops in some areas to be offset by good crops in others. It will increase the effect of the insurance program on stabilization of wheat prices by withdrawing more wheat from the market in the form of premiums to be held in reserve until the time growers need it to offset crop losses. The larger the participation obtained the more rapidly and completely will the blanks in yield and loss history be filled in. Volume also is important to the most efficient operation of the program. A certain basic administrative organization must be maintained and this relatively fixed organization can handle a large volume of business nearly as easily as a small volume, and at a much lower cost per contract.

In general, the distribution of 1940 contracts followed the normal distribution of the wheat acreage with heaviest participation in the major wheat-producing States.

Within States insured acreage was concentrated in the principal wheat counties. There was no marked tendency for the insurance contracts to be concentrated on either high-risk or low-risk types of farms which would indicate that the insurance program is obtaining a range of risk representative of a cross section of the wheat-growing industry. This range in 1940 was somewhat more representative than in 1939.

ACTUARIAL CONSIDERATIONS

GENERAL BASIS OF INSURANCE YIELDS AND RATES

The actuarial methods of the wheat crop insurance program rest on fundamental principles which are common to all forms of insurance and include (1) accurate measure of the value or volume to be insured and (2) accurate measurement of the risk so that premiums may be proportionate to it.

When crop insurance was started, one of the first problems to be solved was: What yields might farmers insure and how much premium should they pay?

The Corporation believes that as a result of 2 years of broad experience in insuring the wheat crop, a satisfactory answer to this question has been found through the building up of an extensive actuarial structure, involving the study of yields and losses on many thousands of farms.

Starting with the individual farm as the basis of all calculations, the past history of the farm is a forecast of the future. In other words, the foundation of crop insurance yields and rates is the individual farm history, on the theory that over any representative period of years in the future, given the same methods of operation, the ordinary farm will produce about the same average yields and will suffer about the same losses as it has in the past. While yields and losses may vary widely from year to year, in the long run they should closely approach the past average, unless changed conditions enter into the farming operation.

Moving from the individual farm to the group it can be seen that if accurate yields and premium rates are determined for the individual farms the program in each State and in each county could be self-sustaining.

However, even with entirely accurate rates for individual farms, this does not mean that in any one year the insurance premiums paid by growers will exactly equal indemnities paid. Crop conditions and crop yields vary widely from year to year and frequently adverse weather cycles bring poor crops for a series of years over a large area. Thus, rates must be measured on a long-range basis.

To sum up the actuarial considerations, it can be seen that annual premium payments will be received in a relatively uniform flow from year to year, depending in volume on the number of farmers participating. On the other hand, indemnities will fluctuate widely, depending on the extent of participation and the losses sustained by the crop. In no one year is it likely that premiums paid in and indemnities paid out will exactly balance. However, since premium rates are based on the average crop-loss experience over a representative period of past years, premiums collected and indemnities paid should balance over a representative period of years during which insurance is written.

1940 ACTUARIAL WORK

The need for certain changes in the determination of yields and premium rates for individual farms was shown in the first year's program, but it was found that the general actuarial approach was feasible. The 1939 experience also showed that county Agricultural Adjustment Administration committees were competent to perform the field work, consisting of assembling yield records for farms, of making computations on the basis of formulas worked out by the Corporation, and making appraisals of yields and premium rates for farms for which dependable records were not available. Consequently, in refining the actuarial data to be used as the basis of the 1940 program, more direct responsibility was placed on county committees and at the same time adequate controls were instituted to serve as a check on the county work.

The first step was a complete reworking of yields and rates for all farms on the 9-year base period, 1930-38. This base period brought into the farm history the latest available recorded yields, those for the years 1936-38, and tended to correct distortions which might have occurred in the shorter 1930-35 base period used the previous year. The 9-year base history of the individual farm was then adjusted to a 13-year, 1926-38, period. In certain areas of the Great Plains where unusual droughts had occurred in the base period, the history of the farm was extended to 20 years by the use of an adjustment factor. Where dependable records were not available, yields and premium rates were appraised by the county committee, using a similar "key" farm, for which reliable and applicable yield information was available, as a guide in making the appraisal. Such appraisals took into account the topography of the land, soil type, methods of cultivation, location of the farm, and managerial ability of the operator.

Another refinement introduced in 1940 was the use of county control figures for yields and rates set up for individual farms. These controls were called "County Check Yields and Check Premium Rates." The check yields were based on county yield figures acquired as part of the crop-estimating work carried on for years by the Department. The county check rates were based on actuarial studies carried on during the last 4 years. Thus, the control figures were established independently of the yields and rates being set up by the county committees for writing insurance. While the yields and rates of individual farms might vary widely, it was felt that the aggregate average of all yields and the aggregate average of premium rates for all wheat farms in the county should meet the check yields and premium rates. If they did not, the individual farm yields and rates for all listed farms in the county as a whole were factored upward or downward so the average for these farms coincided with the check yields and check premium rates of the county.

The extent of the actuarial work is demonstrated by the fact that yields and premium rates were developed for farms in 1,566 counties of 36 States. Yields and rates are closely in line with the past experience. Those regions of stable production obtain insurance at relatively low premium rates while unstable high-risk areas pay higher premiums.

Two years of crop insurance experience has made it possible to draw certain broad conclusions as to the actuarial methods used. It appears that in 1939 with new and untried data and methods the Corporation wrote insurance for higher yields on the average and lower premiums on the average than accumulated data show should have been done. Also in 1939 there were no adequate controls to prevent county committees from assigning higher yields and lower premium rates than were justified by the actuarial tables. Although it will not be possible to definitely analyze the operation of yields and rates in 1940 until after losses have been adjusted, preliminary examinations show that the controls are operating successfully.

In the 1939 program, yields and premiums were computed after insurance applications were submitted. Since many of the applications were not received until late in the application period,

premium notices were delayed and thus farmers in some cases paid their premiums after the crop began growing. This made possible some adverse selection of risks by the farmer.

In the 1940 program yields and premium rates were established prior to the application period on all farms for which applications might be submitted compelling all farmers to pay insurance premiums before seeding.

Wheat yield and loss data obtained under the Federal Crop Insurance Corporation so far will become increasingly valuable, not only for insurance purposes, but for basic research and for use in the general work of State and Federal agricultural agencies. It will form the nucleus of a ready index to the long-range productivity and crop risk of wheatland on each farm; will point to misuse of lands and loss of fertility, as well as providing a concrete measure of the advantages of good farming methods.

ADJUSTMENT OF LOSSES

The adjustment of crop losses, first undertaken on the 1939 wheat crop, was a task to be approached with a great deal of caution due to the vital importance of accurate adjustments to the crop insurance program. Organization of the Corporation was such that adjustments would be completed in such a manner as to be fair and just both to the insured farmer and to the Corporation.

CROP CONDITIONS IN 1940

The 1940 crop year proved to be a season which provided thorough trial of the loss-adjustment machinery. As farmers prepared to plant their 1940 winter wheat crop, a searing drought struck the very heart of the Hard Red Winter wheat belt. In six principal hard-winter-wheat States—Texas, Oklahoma, New Mexico, Colorado, Kansas, and Nebraska—crop prospects plummeted to history-making low levels, as the fall months passed, bringing only unusual heat and far too little rain.

A reassuring element to many of the wheat growers in the stricken areas was the protection they had obtained under the wheat crop insurance program. In the 6 States mentioned, where 60 percent of the Nation's hard-winter-wheat acreage is located, 156,000 contracts were in force on 6,533,955 acres, involving a guaranty of wheat income to growers from 52,147,189 bushels of wheat. Thus, in this area in 1940 were 41 percent of all contracts, covering 55 percent of all insured acreage, and 48 percent of all insured production.

Through the fall months the drought increased in intensity, and by December it was evident that the abandonment of acreage planted would be one of the largest on record. By May 1 it was estimated that 11 of the 45 million acres of winter wheat had been abandoned. Ten million acres had been lost in the six Plains States previously mentioned.

Thus, as the wheat crop developed it was evident that claims for losses would be exceedingly heavy, particularly in the Hard Red Winter wheat belt where much of the crop was irretrievably lost, and that possible heavy losses might develop in other wheat-growing

areas unless weather conditions were above normal for the balance of the growing season.

The unusual occurred. In the late spring and early summer timely rains fell over most of the Wheat Belt, reviving the wheat that had managed to survive in the drought areas, and improving the prospects everywhere. Total production of winter wheat is placed at 555,839,000 bushels as of August 1, with an average harvested acre yield of 15.9 bushels an acre, as compared to 14.3 bushels for the 1929-38 average. Extraordinary weather and extraordinary yields in the acreage which was not lost more than offset, nationally, the drought losses of farmers in the Southwest.

PAYMENT OF INDEMNITIES

As of June 30, 1940, the Corporation had completed the adjustment of 55,912 loss claims in 30 States on the 1939 crop, involving the disbursement of indemnities representing 10,163,127 bushels of wheat to compensate growers for damage to crops on 2,610,966 acres. In brief, the procedure followed when an insured farmer suffers a crop loss is (1) the farmer reports the loss to the county committee and an adjuster is sent to the farm to examine the severity and extent of damage, (2) in case of a total loss the farmer is required to promptly submit a statement in proof of loss and on approval of the claim may be paid immediately an indemnity equivalent to the loss, (3) in case of a loss of such severity that it is not practicable for the farmer further to care for the crop, the amount of loss is appraised, taking into account the potential yield that may be expected from the damaged crop and a claim may be made for the net loss above the potential production, (4) in case of a loss which is not sufficient to be considered total or substantially total, the amount of indemnity due, if any, is determined after the crop is threshed and the actual production measured.

Growers may obtain settlement of losses in the form of (1) a warehouse receipt or other similar instrument representing wheat, if wheat is available and it is administratively practicable to make payment in such form, (2) immediate cash settlement in the cash value of the wheat represented by the indemnity at the market price current on the date the indemnity is approved, and (3) by deferred settlement in the cash equivalent under which the grower's claim is approved for payment and computation of the cash equivalent is withheld until the date the grower notifies the Corporation that final settlement is desired. Payments may be deferred as long as 90 days after approval of the claim.

GRAIN HANDLING

In 1940 the wheat transactions of the Corporation were reduced to a well-defined routine.

In accumulating wheat supplies the Corporation bought ordinary wheat only, paying no premiums for protein when possible. However, it was necessary in some instances to pay a premium for high-protein wheat and some such wheat was acquired at no premium.

A number of refinements were made in 1940 wheat operations

which contributed to greater facility for farmers and the Corporation in completing various transactions in terms of wheat, as follows:

1. Specifications by areas as to class of wheat in which premiums were to be paid or computed were removed. The premium was computed on the basis of the same class of wheat as the farmer customarily grows on his farm, with the Corporation specifying only the basic grade to be used in the computations. Grade No. 2 was used as the basic grade for all wheat, except spring, for which the basic grade was No. 1 Northern spring.

2. Since the wheat for the reserve in 1939 was accumulated after the major portion of the crop had moved to market, it was necessary to buy wheat in subterminal and terminal markets and part of the value of such wheat was represented by paid-in freight and transit privileges. This made it difficult to return such wheat to growers as indemnities, inasmuch as it was not located near their local stations and further, if such wheat was taken by farmers, it was difficult for them to realize on the value of the paid-in freight and transit privileges which are tendered with the wheat.

To avoid this problem the Corporation endeavored in 1940 to acquire as much "flat" wheat (wheat on which no freight has been paid) as possible, close to the points at which claims might be expected. This operation was limited, of course, by the fact that in the normal grain movement little flat wheat was available for purchase by the Corporation by the time premiums were paid. A total of approximately 1,727,264 bushels of flat wheat was acquired.

3. In a further effort to make wheat available to those growers who might want to take actual wheat in indemnities, an arrangement was completed with the Commodity Credit Corporation to exchange Federal Crop Insurance Corporation wheat for any wheat that might be acquired through its loan program. However, due to the upward trend of prices at the time loans were maturing, the Commodity Credit Corporation ended the season with very little wheat in county storage available for exchange and use as indemnities.

4. Farmers' requests for payment of indemnities in the form of actual wheat were sharply reduced and the grain-handling problem materially lessened by the use of the deferred-settlement plan, discussed under adjustment work, by which growers could defer the cash settlement of their indemnities up to 90 days, selecting the date on which the wheat was to be sold from the reserves and on which the value of their indemnities were computed.

5. Indemnities were payable in 1940 only in flat wheat or in cash equivalent, and no attempt was made to deliver actual wheat to a farmer where paid-in freight or transit privileges would be involved. Where flat wheat was delivered and stored in a federally licensed warehouse, the transaction was carried out by means of a loading-out order issued to growers against nonnegotiable warehouse receipts held by the Corporation, thus avoiding the administrative difficulty, delay, and expense of splitting up negotiable warehouse receipts, an unwieldy and expensive procedure in 1939.

To provide storage facilities for the wheat reserve accumulated during 1940 insurance operations, the Corporation entered into 117 storage agreements with operators of 225 elevators and warehouses. The standard agreements provided for storage rates of one-thirtieth of a cent per day per bushel for the first 6 months of the year and free storage for the remaining 6 months.

The Corporation was interested in the formulation of a uniform grain-storage agreement by the Department of Agriculture designed to unify storage rates and handling costs and to facilitate coordination of the grain storage operations in the various agencies of the Department which accumulate and store grain. This uniform storage agreement, which went into effect April 25, 1940, will solve many of the problems of handling grain for the crop insurance program, making it possible for the Corporation to exchange wheat with other agencies on a uniform basis, and increasing the possibilities of locating wheat supplies more closely in line with indemnity needs.

The uniform warehouse agreement of the Department closely parallels the contracts under which the Corporation had previously

acquired storage as to storage rates and methods of operation, and thus the Corporation is in a position to utilize the uniform storage agreement with very little shift in procedure.

It would appear from the history of wheat operations to date that it may never be possible to pay, at least locally in the area where the loss occurred, indemnities "in kind" to a large proportion of the growers. This is because premium collections follow the movement of the major part of the wheat crop to terminal and subterminal markets, and of the added difficulties of obtaining adequate storage at country points. However, under the uniform warehouse agreements, with deferred settlements, and an increasing effort to acquire larger supplies of flat wheat, the Corporation may be able to service growers' needs for actual deliveries of wheat in areas where it is vitally important that such wheat be made available. It should be understood that payment of indemnities in actual wheat is incidental to the principal reason for the maintenance of a reserve of actual wheat, and that this extra service to growers has distinct limitations and should not overshadow the main purpose for which the wheat reserve is maintained—the avoidance of effect of price changes on the Corporation's insurance liabilities.

PLANNING FOR 1941

THIRD YEAR OF INSURANCE BEGUN

In order to make wheat crop insurance available on wheat planted for 1941 harvest well in advance of seeding time, the planning of the program for the third year of all-risk crop insurance was completed in the early spring months of 1940, and the provisions of the new program were announced June 18. Preliminary work had been under way for several months, and by the end of the fiscal year, committees in practically all counties had finished the listing of the insurable yields and premium rates which would apply to farms for 1941 insurance.

FEW CHANGES IN PROGRAM

No major changes were made in the policy of the program and except for a few administrative changes, the insurance in 1941 will operate along the same lines as during the current year.

The most important shift was the establishment of a single and early closing date, August 31, 1940, for completing insurance contracts on 1941 winter wheat. This closing date was 2 weeks to 1 month earlier than the deadlines in effect on the 1940 program. For spring wheat the closing date is February 28, 1941. Each closing date is sufficiently early to prevent selection of insurance on the basis of crop conditions.

ACTUARIAL DATA BROUGHT UP TO DATE

An annual task of the Corporation is that of bringing insurable yields and premium rates up to date to reflect the latest trend in yields and losses and to correct the actuarial data in the light of new information as it becomes available. The rate structure set up for the 1940 program was the foundation of this annual

recheck and revision. Into this 1940 structure, remodeled where it was found necessary, were blended the actual yields or losses for each farm in 1939. The use of the new yields resulted in a 10-year base period, 1930-39, for the farm, adjusted to reflect either the 14-year, 1926-39, or the 21-year, 1919-39, experience for the period.

After determination of the new yields and premium rates for farms in a county, controls were applied, as in 1940, to prevent over or under insurance. These controls were in the form of revised county check yields and check premium rates, establishing an average level for the county, with which the aggregate of all insurance yields and rates in the county must be in accord. The new check yields and premium rates included the county yield experience in 1939. Check premium rates were adjusted to reflect somewhat the actual insurance loss experience for the county for the 1939 crop.

The yields and rates established for the 1941 program indicate the increasing value of continuity in building up actuarial data. The original rates first used in the 1939 program were built from historical yield data for individual farms for the period 1930-35. However, in 1940, records became available on the yields of 1936-38, providing more recent and more applicable data for improvement of the insurance base. For the 1941 program actual 1939 yields recorded under the insurance program were added into the base, bringing the program closer to a base of actual individual farm history. Yields of the 1940 crop are now being recorded for use in the 1942 program.

A brief summary of the main points of the 1941 program follows:

1. Any farmer may insure his interest in a wheat crop to be seeded in 1941 by making proper application and paying the specified premium, prior to the seeding of the crop or the closing date, whichever is earlier. The insurance covers either 50 or 75 percent of the average yield for the farm as determined from actuarial data. Insurance is stated in bushels and production is all-risk, against natural hazards as drought, wind, hail, fire, disease, insects, etc.

2. Growers will apply for the insurance on their full wheat-acreage allotment under the Agricultural Adjustment Administration program unless they are certain they will seed less than the allotment, in which case the application will cover the actual acreage to be seeded. No insurance will be written on acreage planted in excess of 1941 Agricultural Adjustment Administration acreage allotments.

3. The premium rate is computed separately for each farm, and is based on the risk involved in growing wheat on that particular farm, as shown by the losses in the past, averaged with the loss experience of the county in which the farm is located. Premiums are stated in terms of bushels. They may be paid with a warehouse receipt for wheat in storage, in the cash equivalent, or by means of an advance against payments to be earned under the Agricultural Adjustment Administration program.

4. A crop insurance contract may be assigned as collateral security for a current loan, current advances to enable the grower to care for his crop, the amount of a current year's rental, or a current installment due under a purchase contract or mortgage.

5. In case a grower's insured crop fails to produce the insured amount, through no fault or neglect on his part, he may claim an indemnity which in bushels is sufficient to bring his production up to the insured amount. The grower may request that his indemnity be paid in the form of actual wheat or in the cash equivalent. The Corporation will endeavor to follow the wishes of the grower as to the method of payment of indemnity, but reserves the option to pay in either wheat or cash equivalent when it is not feasible to follow the grower's request. A grower may also request a deferred settlement, with the privilege of requesting payment on notice at any time within 90 days after his

claim has been approved, in which case the cash-equivalent value would be determined on the date the Corporation received the notice that settlement was desired.

INSURANCE ON OTHER CROPS—RESEARCH

The Corporation is authorized to conduct researches, surveys, and investigations relating to crop insurance for wheat and other agricultural commodities. Such research work has been carried on for cotton, corn, citrus fruits, and is under way for tobacco and rice, utilizing the information acquired in connection with the wheat insurance program to examine the possibilities of insurance for these other commodities and to develop tentative insurance programs for them. At present the Corporation does not have legislative authority to extend its operating program beyond wheat. The progress of the various researches in connection with other crops is as follows:

COTTON

Studies have been made of yields and crop losses from 1933–38 for a large number of sample farms in more than 900 cotton counties in 16 States. These comprise the basic material necessary in setting up actuarial tables for cotton. A tentative actuarial structure for both 75- and 50-percent insurance has been developed for all of these counties and a suggested plan for the application of all-risk insurance for cotton has been developed as outlined in House Document No. 277, Seventy-sixth Congress, entitled "A Suggested Plan for Cotton Crop Insurance.

CORN

Substantial progress was made during the year in gathering corn-yield data and in the computation of yields and loss costs. Data previously obtained by mailed questionnaire, field survey, and other sources are being supplemented by information supplied by county agricultural conservation committees, insurance companies owning farms in Corn Belt States, and by agricultural colleges. Thus, a fairly adequate volume of sample data will be available for the determination of a yield and rate structure for corn crop insurance. Supplementary studies were made during the year on the effect that increased plantings of hybrid corn have had on the level and the variability of corn yields, and on the feasibility of using to a considerable extent county yield data in the determination of yields and loss costs for corn crop insurance. Consideration is being given to the development of a tentative plan for corn yield insurance. However, such a plan involves an important factor not comparable to the wheat crop insurance plan. This is the lack of yield data for large numbers of individual farms. Another factor which must be taken into account is the changing trend in corn yields as a result of the influence of hybrid corn. Therefore it would appear that a corn insurance program would have to utilize extensively an appraisal system and that consideration will have to be given to the storing of any insurance reserve in kind near the farm which is the principal market for corn.

CITRUS FRUITS

Grove owners have demonstrated a great deal of interest in citrus fruit insurance as a result of disastrous losses from unavoidable causes, particularly freezes, experienced in recent years. Records have been obtained on the production and losses of about 1,200 groves in Florida, California, and Texas and are being analyzed to develop actuarial tables. Preliminary results indicate that satisfactory actuarial data can be worked out for citrus insurance, taking into account trends in production for varieties and various ages of trees. Since the citrus insurance program could not maintain the insurance reserve in kind, it would probably be necessary to write insurance on the basis of a fixed price.

